

UTILITY ADVISORY COMMITTEE MINUTES
November 9, 2022

Call to Order

Meeting called to order 5:30 pm.

Members Present: Andy Maron, Ted Jones, Charlie Averill, Svend Brandt-Erichsen, Sheina Hughes, Susan Hume, Martin Pastucha (via Zoom, then in person later in the meeting).

Also Present: Chris Wierzbicki (Public Works Director); John Quitslund (Council liaison)
Chris Gonzalez (FCS), Chris Frei (public)

Water Tank Replacement - Update

Discussion began with a recap of the increase in the cost estimate for the water tank replacement project and a summary of the work that has been done to refine the cost estimate for the project:

- The CIP cost estimate for the replacement project as \$11 to \$12 million
- In preparing to bid the project, the consultants estimated the cost could be as much as \$24 million, due to a wide range of factors that reflect differences from when the initial estimates were prepared.
- There also have been discussions with tank vendors, as part of the effort to refine cost estimates. From those discussions came the suggestion that the composite tank design (with a concrete base and a steel top) may not be appropriate for our seismic zone.
- In response to that input, Public Works will have the consultant develop packages for two tank designs: composite and steel-only.
- Vendor discussions also indicated that the consultant's most recent cost estimate may be high, and that cost may be \$16 to \$20 million.
- Based on all of the input to date, the current working estimate for the project is \$20 million.

Funding considerations contributed to the decision to put two tank designs out to bid. The Public Works Trust Fund deadline for issuing a notice to proceed for the project is November 9, 2023, which would not allow time to rebid the project with a different design.

The City also is investigating other potential funding sources.

Rate Study

Much of the meeting was devoted to a discussion of potential funding packages for the water tank replacement project and their implications for the rate study.

The discussion started with an explanation of the alternative funding elements that can contribute to the funding package, including:

- State loan of \$11 million
- Reserve Fund of \$4 million
- Borrowing from the general fund (with interest rate to be determined by the City Council)
- Borrowing through issuance of general obligation bonds

The Committee discussed the implications of each of these potential elements.
The committee then reviewed and discussed three scenarios that had been developed:

Lowest Total Cost Scenario

- \$4 million from Water Reserve Fund
- \$2.5 million from General Fund Loan – assuming 6-year repayment term
- \$2.5 million from General Obligation Bonds – with 20-year repayment term

Total cost of financing would be about \$22 million. Projected to require a 33% per year increase in water rates.

Middle Ground Scenario

- \$2 million from Water Reserve Fund
- \$2.5 million from General Fund Loan
- \$4.5 million from General Obligation Bonds

Total cost of financing would be about \$25 million. Projected to require a 23% per year increase in water rates.

Highest Total Cost Scenario

- \$2 million from Water Reserve Fund
- No General Fund Loan
- \$7 million from General Obligation Bonds

Total cost of financing would be \$28 million. Projected to require a 13% per year increase in water rates.

There followed a discussion of the assumptions upon which the scenarios were based and how different assumptions could affect each of the scenarios. The discussion highlighted the need for a net present value analysis to compare costs under the different scenarios. There also was a discussion of the City's current water rates being lower than pier water suppliers. Due to that differential, rates could increase materially and still remain comparable to pier jurisdictions.

The Committee's recommendations to guide further development of the funding package for the increased cost of the water tank project were:

- Prepare a net present value for each of the funding scenarios
- Use the Reserve Fund to directly support the project
- Favor lower overall project costs ahead of minimizing rate impact, but do so taking into account net present value
- Target water rates comparable to pier water suppliers

System Participation Fee

The discussion followed up on questions from the prior meeting regarding how the growth estimate for ERUs was developed for use in calculating the System Participation Fee. There had been questions at the last meeting regarding the source of the estimate for growth in ERUs. The discussion included a review of existing ERUs served by the system (4,818), expected growth (694) and the reason for a different total number of ERUs for collection and for treatment. The difference reflects the south end customers that only receive collection services.

The Committee asked who many System Participation Fees are generated each year.

Water Rate Structure

The discussion began with a review of the current rate structure:

- Single Family -- a base rate plus a charge for water consumption that increases on an incremental basis.
- Multifamily - connections are mostly set at a fixed base rate with a flat fee for consumption.
- Commercial – Base rate determined by size of connection and a flat consumption rate.
- Irrigation Systems – Base rate determined by size of connection and consumption per 100 cubic feet.

The City's consultant recommended leaving the rate structure unchanged, in light of the anticipated significant water rate increase. There followed a discussion of how a rate increase could affect different water user classes. The Committee asked about the number of customers in each user category. The City currently serves 2807 units. About 100 are multi-family. 2386 are single family. The rest are commercial and irrigation.

The Committee did not reach a conclusion regarding recommendations concerning water rate structure.

Public Works Update

Chris Wierzbicki provided a brief update regarding the Wing Point lift station project. Discussions are ongoing with the property owners that would need changes to their sewer connections to facilitate the project. Those discussions have been productive, as they have resulted in consideration of further alternatives for design of the project.

Meeting Adjourned